

## Elementary, my dear Mahathir

FROM OUR SPECIAL CORRESPONDENT

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The prime minister of Malaysia, Dr Mahathir Mohamad, practised medicine as a young man. In a way, he still does. You make an examination of the country, he says, diagnose its ailments. Reach a judgment, put it into practice and watch the patient. Dr Mahathir mentions another doctor, Conan Doyle, who wrote the Sherlock Holmes stories. Holmes's method is all based on medical deduction, he says. In Dr Mahathir, as in Holmes, the quality of early training shows. But with the grave problems Malaysia now faces, it is not clear that the doctor is just what the country ordered.

Those problems can conveniently be labelled, in Holmesian terms, the case of the divided government and the case of the collapsing economy. Dr Mahathir believes the political problem will be the easier one to solve.

Malaysia is governed by a coalition of 11 parties, of which Dr Mahathir's, the United Malays National Organisation, is the biggest. The Organisation seems far from United. The deputy prime minister, Mr Musa Hitam, who is also the deputy president of UMNO, resigned from both

jobs late last month after a quarrel with Dr Mahathir. He flew first to Mecca, to make a pilgrimage, and then to see friends in London, where he has been cooling off ever since. Dr Mahathir says

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that he hopes Mr Musa will withdraw his resignation, which does not formally take effect until March 16th, but that if he does not the party will not be undermined. It has, says the prime minister, survived the loss of senior officials before: he himself had once been expelled from it.

Mr Musa has been uncomfortable for a long time working with Dr Mahathir. They do not always see eye-to-eye on policy; Mr Musa is said, for example, to be dismayed by Dr Mahathir's enthusiasm for heavy-industry projects. But the main point of friction has been the prime minister's style of government. Malaysians are, in general, deeply courteous people, and some deference is expected even of politicians. Dr Mahathir prides himself on a decisive and plain-spoken style that in Malaysian ears can seem abrasive instead. Mr Musa may have left because he felt ill-used by his boss.

Their disagreements became so talked about last year that the two men had to make a much-photographed embrace in public. Some scent a power-play in Mr Musa's resignation. This seems unlikely. Mr Musa had every right as UMNO deputy president to expect to succeed Dr Mahathir as prime minister (though it might take a while, as heirs-apparent have been known to wait for ten years before getting the top job). Mr Musa would be imprudent to risk an open contest: he has a strong following in UMNO, but Dr Mahathir's is stronger, and he could probably hold off any challenge.

The prime minister is probably more worried by the gigantic financial scandals that have touched his government. Nearly \$1 billion of government money has been lost as a result of unwise loans by a subsidiary of the state-controlled Bumiputra Bank to Hongkong property speculators. The government has been accused of suppressing an official report, which was, however, at last published this week (see page 81). In another, entirely separate, financial affair, Mr Tan Koon Swan, the president of the Malaysian Chinese Association, the second biggest party in the government coalition, has been charged in Singapore with fraud and other financial offences. Pending his trial, which is due to start on May 15th, he is out on bail of \$19m.

All this is particularly vexing to Dr Mahathir because, under the country's democratic constitution, he has to call a general election by April of next year. There are already rumours of an early election. The biggest opposition thrust is likely to come from the Islam party. It expects to pick up votes by professing to be more Muslim than UMNO, which extremist Muslims call, however improbably, an infidel organisation.

The Islam party may also get some

Chinese support by claiming that minorities would have more rights if Islamic law were introduced into Malaysia—a claim that the government's Bumiputra policy makes less improbable than it sounds. Even so, there is little doubt that the UMNO-led coalition will win. It will almost certainly not, however, get the landslide—132 of the 154 seats in parliament—that Dr Mahathir won in 1982.

### The case of the falling curves

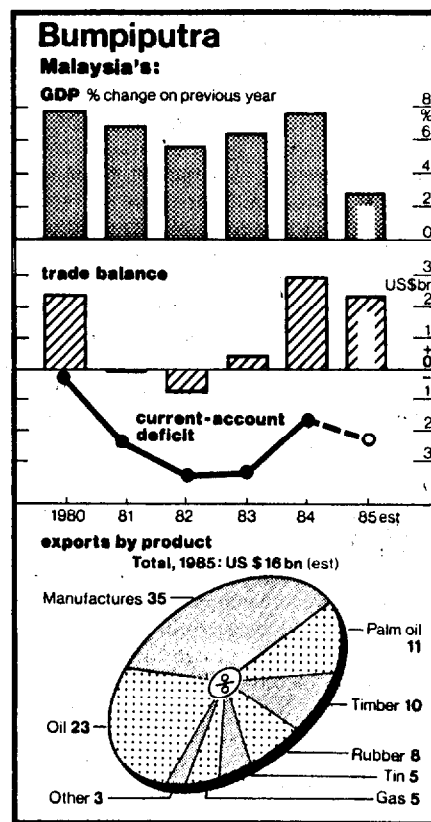
The government has its work cut out. The aim with which UMNO is most closely identified, the Bumiputra ("son of the soil") policy, is threatened by Malaysia's economic difficulties. The goal of that policy, which was put into effect in 1971, is to raise the economic level of the country's Malays. They make up about half the population, but business has been dominated by Malaysians of Chinese descent (about a third of the population) and of Indian descent (about 10%). The means to the goal has been discrimination in favour of Malays: by law, they enjoy preference in jobs; by 1990, 30% of every Malaysia-registered company is supposed to be owned by Malays.

Some progress was made towards this, and ethnic frictions avoided, thanks to economic growth rates that averaged 8% a year during the 1970s. But growth is now falling fast. Last year it fell to less than 3%; some fear that there may be no growth at all this year. Malaysia is facing a terrible world market for almost all its commodity exports, which account for about two-thirds of its export earnings. What is worse, the industrialisation policy that it has been following to diversify away from commodities, and to which Dr Mahathir shows every sign of still being committed despite the demurs of his economic officials, has gone badly.

The market for the commodities on which Malaysia's prosperity has been built is in a bad way. The price of rubber (Malaysia has 35% of world production) has dropped by about a third over a year. The price of palm oil (60% of world production) has fallen by two-thirds. The price of tin (35% of world production) has almost halved. The price of oil, the country's largest foreign exchange earner, has also nearly halved.

Dr Mahathir says he does not expect Malaysia's commodities to fetch high prices again. It is not a cyclical matter, he says. Not only is it now possible to produce commodities in large quantities at low cost, but former buyers have found substitutes which are sometimes better than the original. He hopes that the price of palm oil will improve, but he does not believe that tin will recover.

Dr Mahathir's policy has been to expand manufacturing, which now accounts



for about 20% of GDP and a third of exports. Malaysia has done this by huge spending—more than \$3 billion so far—on import-substitution investments in industries such as steel, cement and cars: all with falling-price international markets or collapsing ones.

The government came out with a plan at the beginning of February to shift the country's industrial-development emphasis from import substitution to export industries based on the processing of Malaysia's raw materials. The prime minister, however, still has an import-substituter's instincts. He defends the decision to produce steel, saying that Malaysia cannot afford to develop the new technology, so it is building the old technology.

Dr Mahathir praises the Japanese, who have helped Malaysia set up its car industry, for their discipline; but perhaps not even he believes the Malays will become the Japanese of South-East Asia. A new date being talked about in Malaysia for fulfilment of the Bumiputra plan is the year 2100. By then, according to projections, the population of Malaysia, now 15m, will have risen to 70m. Dr Mahathir says he is not encouraging large families, but neither is he discouraging them: birth control seems as little publicised in the rural areas of Malaysia as it was in Victorian England. The implication seems to be that a market so large will justify import substitution. It's enough to give the science of deduction a bad name.